

Message Text

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
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TO SECSTATE WASHDC PRIORITY 4909

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SUBJ: INVESTMENT CLIMATE - EGYPT

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1. FOLLOWING INFORMATION IS SUBMITTED IN RESPONSE REF A.
2. GOE POLICY IS TO WELCOME FOREIGN INVESTMENT AND TO INVITE PARTICIPATION OF FOREIGN PRIVATE CAPITAL IN DEVELOPMENT OF EGYPTIAN ECONOMY. THIS POLICY IS EXPRESSED IN NUMEROUS PUBLIC STATEMENTS BY GOE OFFICIALS, INCLUDING PRESIDENT SADAT, AND IS ALSO EMBODIED IN LAW 43 OF 1974, THE BASIC EGYPTIAN FOREIGN INVESTMENT STATUTE. (REF B)
3. ENACTMENT OF LAW 43 WAS PART OF SERIES OF MEASURES WHICH MARKED CHANGE TOWARD LIBERALIZATION AND DIMINISHED STATE CONTROL IN ALMOST EVERY ASPECT OF GOE ECONOMIC LIFE, A POLICY POPULARLY KNOWN AS THE "OPEN DOOR." IN ADDITION TO ADOPTION OF NEW FOREIGN INVESTMENT LAW, MANY RESTRICTIONS WERE REMOVED, BEGINNING IN 1974, FROM
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REGULATIONS GOVERNING IMPORTATION, CURRENCY, AND COMMERCIAL REPRESENTATION. THE PROCESS CONTINUES. LAW 43 WAS AMENDED IN IMPORTANT RESPECTS BY LAW 32 OF JUNE 1977, THE PROVISIONS OF WHICH FURTHER FAVOR THE FOREIGN INVESTOR. AMONG OTHER CHANGES, THE EXCHANGE RATE FOR VALUING CAPITAL TRANSFERRED TO INVESTMENT PROJECTS WAS MADE MORE ADVANTAGEOUS, AND ACCESS TO ADDITIONAL SOURCES

OF FOREIGN EXCHANGE WAS PERMITTED. EGYPT IS A PARTY TO BILATERAL AGREEMENTS, INCLUDING ONE WITH THE UNITED STATES AND A RECENTLY-APPROVED ONE WITH JAPAN, WHICH PROVIDE FOR THE PROMOTION AND PROTECTION OF INVESTMENTS MADE BY NATIONALS OF PARTICULAR COUNTRIES IN EGYPT.

4. EGYPT HAS GNP OF APPROXIMATELY 13 BILLION DOLLARS OF WHICH AGRICULTURE CONTRIBUTES ABOUT 30 PERCENT AND INDUSTRY 22 PERCENT. INDUSTRY IS RELATIVELY WELL DEVELOPED, WITH FOOD-PROCESSING AND TEXTILE-RELATED MANUFACTURING PLAYING PARTICULARLY IMPORTANT ROLES. OTHER SIGNIFICANT INDUSTRIAL ACTIVITIES INCLUDE PETROLEUM PRODUCTION AND REFINING, VEHICLE ASSEMBLY, AND STEEL-MAKING. BASIC INFRASTRUCTURE INCLUDES 26,000 KILOMETERS OF ROADS AND 3,600 KILOMETERS OF RAILROAD TRACK.

5. AS A RESULT OF CONTINUING ECONOMIC ASSISTANCE FROM THE U.S. AND OTHER CONTRIBUTORS, AND, MOST IMPORTANT, OF DIRECT BALANCE OF PAYMENTS SUPPORT FROM THE ARAB GULF STATES, EGYPT WAS ABLE TO OVERCOME THE VERY DIFFICULT LIQUIDITY SITUATION IT FACED AT THE BEGINNING OF 1977. THE INTERNATIONAL MONETARY FUND ALSO PROVIDED SOME DIRECT ASSISTANCE, AND HAS ENGAGED IN CONTINUING SERIES OF CONSULTATIONS WITH GOE ON MEASURES TO IMPROVE THE COUNTRY'S FINANCIAL STRUCTURE. WHILE PROBLEMS REMAIN, UNCLASSIFIED

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EGYPT'S POSITION WITH RESPECT TO ITS INTERNATIONAL FINANCIAL OBLIGATIONS HAS SHOWN MARKED IMPROVEMENT IN THE PAST YEAR. THIS ALLOWS GREATER OPPORTUNITY FOR CONCENTRATION ON ECONOMIC DEVELOPMENT, A PROCESS IN WHICH USAID, THE IBRD, AND OTHERS ARE ASSISTING.

6. LAW 43, AS AMENDED, PROVIDES SPECIAL INCENTIVES FOR INVESTMENT, INCLUDING A 5 TO 8 YEAR "TAX HOLIDAY" (LONGER . IN THE CASE OF CERTAIN TYPES OF INVESTMENTS), AND LIMITED EXEMPTION FROM SPECIFIED PROVISIONS OF THE CORPORATE AND . LABOR LAWS. TARIFF PROTECTION FOR DOMESTIC INDUSTRIES EXISTS TO A SIGNIFICANT DEGREE, AND GOE HAS RECENTLY INDICATED IT MAY BE WILLING EXTEND ADDITIONAL PROTECTION TO ENTERPRISES ESTABLISHED BY FOREIGN INVESTORS.

7. INVESTMENT PROPOSALS ARE SUBMITTED TO AND MUST BE APPROVED BY THE INVESTMENT AND FREE ZONES AUTHORITY OF THE MINISTRY OF ECONOMY. IN DECIDING UPON PROJECT APPROVAL, THE AUTHORITY CONSULTS WITH OTHER GOE AGENCIES AS APPROPRIATE. SPECIAL INCENTIVES EXIST FOR CERTAIN TYPES OF INVESTMENTS, E.G., A LENGTHIER TAX HOLIDAY FOR - PROJECTS INVOLVING RECONSTRUCTION, THE ESTABLISHMENT OF

NEW CITIES, OR LAND RECLAMATION.

8. AT ONE TIME, THE INVESTMENT AUTHORITY TENDED EMPHASIZE EXPORT-ORIENTED PROJECTS AND APPEARED RELUCTANT APPROVE PROPOSALS AIMED AT IMPORT SUBSTITUTION. THIS IS NO LONGER THE CASE, HOWEVER, AND RECENT AMENDMENTS TO INVESTMENT LAW MAKE MUCH MORE EXPLICIT REFERENCE TO THIS TYPE OF PROJECT. PROJECTS DESIGNED FOR EXPORT MAY REPATRIATE PROFITS TO THE EXTENT OF EXPORT EARNINGS; THOSE THAT ARE IMPORT SUBSTITUTING IN NATURE MUST WORK OUT REPATRIATION ARRANGEMENT WITH INVESTMENT AUTHORITY. THERE ARE NO SPECIFIC LEGAL REQUIREMENTS FOR LOCAL CONTENT OF MANUFACTURED GOODS, ALTHOUGH IN SOME CASES, GOE HAS SOUGHT A COMMITMENT TO A MINIMUM PERCENTAGE OF LOCAL
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CONTENT AS CONDITION FOR PROJECT APPROVAL. PATENT PROTECTION IS AVAILABLE IN EGYPT.

9. EGYPT HAS LABOR FORCE ESTIMATED AT APPROX. 9.5 MILLION. ACCORDING GOE POPULATION STATISTICS, ABOUT 44 PERCENT OF LABOR FORCE WAS ENGAGED IN AGRICULTURE IN 1976, 13 PERCENT IN MINING AND MANUFACTURING. SOME 65 PERCENT OF THE URBAN LABOR FORCE IS CONSIDERED LITERATE

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(1974 FIGURE). WORKERS CAN BE FOUND IN MOST LABOR CATEGORIES, ALTHOUGH EMIGRATION HAS REDUCED AVAILABILITY AND HELPED INCREASE LABOR COSTS SUBSTANTIALLY IN RECENT YEARS. GOE CORPORATE AND LABOR LAWS PROVIDE FOR A CONSIDERABLE MEASURE OF JOB SECURITY AND BENEFITS FOR EMPLOYEES. THESE LAWS APPLY, IN GENERAL, TO FOREIGN INVESTORS, EXCEPT WHERE SPECIFIC EXEMPTIONS ARE GRANTED BY THE INVESTMENT LAW.

10. BANKS DEALING IN LOCAL CURRENCY MUST HAVE 51 PERCENT EGYPTIAN OWNERSHIP, BUT FOR OTHER TYPES OF PROJECTS, THERE ARE NO SPECIFIC REQUIREMENTS FOR EGYPTIAN EQUITY PARTICIPATION. MOST FOREIGN INVESTORS APPEAR TO THINK IT DESIRABLE TO HAVE SOME DEGREE OF LOCAL OWNERSHIP, BUT THERE ARE EXAMPLES OF LAW 43 ENTERPRISES BEING ENTIRELY OWNED BY THE FOREIGN SPONSOR. WHERE THERE IS LESS THAN MAJORITY OUTSIDE OWNERSHIP, THE NON-EGYPTIAN PARTY CAN RETAIN OPERATIONAL CONTROL, IF DESIRED, THROUGH A MANAGEMENT AGREEMENT. WE ARE AWARE OF NO EXISTING OR RECENT MAJOR INVESTMENT DISPUTES.

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11. OPIC LOAN GUARANTEE AND INSURANCE PROGRAMS ARE CURRENTLY OPERATING IN EGYPT.

12. WE DO NOT NOW BELIEVE THAT ANY FUNDAMENTAL CHANGE IS IMMINENT IN PRESENT GOE POLICY WELCOMING FOREIGN INVESTMENT. AS PREVIOUSLY NOTED, THE JUNE 1977 AMENDMENTS TO INVESTMENT LAW WERE IN DIRECTION FAVORABLE TO FOREIGN INVESTORS.

13. ACCORDING INVESTMENT AUTHORITY FIGURES, AMERICAN SHARE IN CAPITAL OF LAW 43 PROJECTS ACTUALLY IMPLEMENTED AS OF JUNE 30, 1977 WAS 32,853.5.
AS OF JUNE 30, 1977 WAS \$32,853,000 EILTS

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